

INSTRUCTIONS FOR THE PREPARATION OF THE TENNESSEE SALES OR USE TAX RETURN

These instructions apply to the Tennessee sales and use tax return for use after July 15, 2002. The due date of the sales or use tax return is the 20th of the month following the end of the reporting period. Payment of the amount shown on Line 18 is to be made to the Tennessee Department of Revenue, Andrew Jackson State Office Building, Nashville, Tennessee 37242.

Line 1. GROSS SALES. Enter the amount of all sales. Include: (a) cash sales, (b) credit sales, (c) conditional sales, (d) sales exempt from tax, (e) leases and rentals of tangible personal property, (f) telecommunications, (g) charges for fabricating personal property for consumers, and (h) taxable services. **EXCLUDE:** The amount of sales tax collected or accrued.

Line 2. USE TAX ON ITEMS OBTAINED FROM WITHIN THE STATE. Enter the cost of all tangible personal property which was purchased from a dealer without the payment of sales or use tax that was not resold, but used and consumed in the conduct of business. Do not enter the cost of items remaining in inventory for resale.

Line 3. USE TAX ON ITEMS OBTAINED FROM OUT-OF-STATE FOR USE BY THE BUSINESS. Enter the cost of all tangible personal property purchased or imported from out-of-state for use and consumption in-state when no tax was paid to the supplier. Do not include items purchased from out-of-state that are to be resold in the conduct of business.

Line 4. FAIR MARKET VALUE OF TANGIBLE PERSONAL PROPERTY. Enter the fair market value of tangible personal property fabricated, produced, compounded, or severed from the earth for use in Tennessee. In addition, the purchase price or fair market value, whichever is greater, of all property furnished to, or used by, a contractor when a sales or use tax has not been previously paid must be included.

Line 5. TOTAL. Add Lines 1, 2, 3, and 4.

Line 6. EXEMPT TRANSACTIONS FROM SCHEDULE A. Enter the total amount from Schedule A, Line K, Page 2. Exemptions may be disallowed if not detailed as indicated in the appropriate category in Schedule A. (See instructions for Schedule A.)

Line 7. NET TAXABLE TOTAL, STATE. Subtract Line 6 from Line 5.

Line 8. STATE SALES AND USE TAX. Multiply the amount on Line 7 by the state sales tax rate shown on your return and enter the amount on Line 8.

Line 9. FOOD TAX. Multiply the amount on Schedule A, Line A, Page 2 by 6% and enter that amount on Line 9. (See instructions for Schedule A, Line A.)

Line 10. LOCAL SALES AND USE TAX: Multiply the amount on Line 7 by the local tax rate shown on your return. If the return reflects zero local tax, and the taxpayer has no physical presence in Tennessee, the taxpayer must collect 2.25%. If adjustments to the local tax are necessary, complete Schedule B on the reverse side.

Line 11. Add any tax collected in excess of that shown on Lines 8, 9, and 10, after exclusion of the use tax.

Line 12. STATE TAX ON SINGLE ARTICLE SALES FROM \$1601 - \$3,200, INDUSTRIAL TRANSACTIONS, FARM USE TRANSACTIONS, AND DIRECT PAY ENERGY FUEL TRANSACTIONS FROM SCHEDULE C. Enter the amount from Line 7, Schedule C, Page 2. (See instructions for Schedule C.)

Line 13. LOCAL TAX ON INDUSTRIAL TRANSACTIONS SUBJECT TO THE REDUCED RATE OF TAX FROM SCHEDULE C. Enter the amount from Line 9, Schedule C, reverse side.

Line 14. TOTAL TAX. Add Lines 8, 9, 10, 11, 12, and 13.

Line 15. CREDIT MEMO BALANCE. If your account has a credit balance from an overpayment on a prior return, enter the amount on this line and deduct from Line 13.

Line 16. PENALTY FOR LATE FILING. When the return is late at the time of filing, enter 5% of Line 13 for 1-30 days late, 10% for 31-60 days late, and so on until a maximum of 25% of Line 13 is reached for returns that are more than 120 days late. When a credit balance is shown on a return that is late at the time of filing, first deduct Line 15 from Line 13 and calculate the penalty charges on the net amount after the credit deduction. For example, if Line 13 were \$500 and Line 15 were \$100, the penalty would be calculated on \$400. The minimum penalty is \$15, even when the return reflects no tax due but is late filed.

Line 17. INTEREST FOR LATE FILING. Interest is figured at the rate indicated per year on the amount of tax due from Line 13 (or on the net of Line 15 from Line 13 when a credit is resent) from the due date of the return until the late filed return is postmarked.

Line 18. TOTAL DUE. When the return is timely filed, deduct the credit balance (if any) from Line 13. On late filed returns, deduct line 15 from line 13, calculate the penalty and interest on the net. Enter the result here.

SCHEDULE A – EXEMPT TRANSACTIONS

The law provides for the deduction from gross sales and purchases those items specifically exempt from tax. Schedule A is used to identify these items. Schedule A, Line A, is also used to identify the total food sales subject to the 6% state tax rate. Any amount claimed as an exemption on Page 1, Line 6 must be itemized on this schedule.

Line A. FOOD NET TAXABLE. Include all sales of food and food ingredients that are subject to the 6% state tax rate. **Add this amount to Schedule B, Line 2.**

Line B. SALES FOR RESALE AND FURTHER PROCESSING. Include all sales which were made to vendors or other establishments for resale, or for rental or leasing, and sales of items to be used in processing for sale. These transactions must be supported by valid certificates of resale, to be retained in the dealer's files.

Line C. SALES OF EXEMPT ITEMS. Enter sale of: (1) fertilizer and field and garden seed for farm purposes, (2) gasoline, (3) livestock and poultry feeds, (4) prescription drugs, and (5) other items specifically exempt by state law.

Line D. SALES TO EXEMPT VENDEES. Enter all sales to the federal government, the State of Tennessee, its political subdivisions, and sales to qualified institutions such as churches, non-profit schools, hospitals, homes for the aged, and orphanages. These transactions must be supported by proper exemption certificates retained in your files.

Line E. RETURNED MERCHANDISE. Include only taxable items voluntarily returned by the purchaser which have been included in Gross Sales on this or a previous return and for which full credit is given to the purchaser. Do not include reposessions.

Line F. SALES OF FARM AND INDUSTRIAL MACHINERY. Enter sales of farm machinery and industrial machinery which have been sold to qualified exempt purchasers. These transactions must be supported by proper exemption certificates that must be retained in your file.

Line G. SALES IN INTERSTATE OR FOREIGN COMMERCE. Deduct those sales originating in Tennessee where the purchaser takes possession outside of Tennessee for use or consumption outside this state. Also deduct sales of motor vehicles and trailers delivered out-of-state by dealers and sales of motor vehicles and boats removed by non-resident purchasers within three (3) days. Non-resident removals must be supported by three-day removal affidavits in the dealers' files.

Line H. REPOSSESSIONS. Enter that portion of the unpaid principle balances due from tangible personal property repossessed from the customer in excess of \$500.00. (See instructions for Schedule B, Lines 2 and 6, below.)

Line I. SALES OF ENERGY FUEL AND WATER. Enter the total of all sales not subject to full state tax and sales made to manufacturers and farm users. DO NOT include COMMERCIAL ENERGY FUEL SALES.

Line J. OTHER AND CASH DISCOUNTS. Allowance for trade-in of items of like kind and character. Dealers must keep documentation. Any other deductions authorized by law must be explained here. Also enter the amount of actual cash discounts taken where tax was paid on gross. Do not include trade discounts.

Line K. TOTAL. Add the amounts appearing on Lines A through J and enter on this line. This total must also be entered on Line 6, Page 1 of the return.

SCHEDULE B – COMPUTATION OF LOCAL SALES AND USE TAX

Use this schedule if local taxable sales do not equal State taxable sales. (This will occur if transactions include energy fuel sales, "single article" sales subject to a maximum local tax, food or food ingredients subject to the state tax rate of 6%, or other items requiring an adjustment of tax.)

Line 1. Enter net taxable sales from Line 7, Page 1.

Line 2. ADD ADJUSTMENTS. Add items used and subject to local tax on which state tax only has been paid to supplier. Add the amount from Line A, Schedule A. Add any amounts included in Line E, Schedule A that exceed the single article tax base. Add any amount shown on Line H, Schedule A. (See instructions for Line 6, Schedule B.) Add any other deductions taken in Schedule A, for state tax purposes, which are not properly deductible for local tax purposes.

Line 3. TOTAL. Add Lines 1 and 2.

Line 4. SALES IN EXCESS OF THE MAXIMUM LOCAL TAX BASE ON SINGLE ARTICLE SALES OR PURCHASES (SEE LINE 9, PAGE 1 OF RETURN). Enter the total of the amounts in excess of the maximum on each single article sold which have not been deducted elsewhere. Also, enter any amounts in excess of the maximum per single article purchased and reported for use tax on this return.

Line 5. DEDUCT ENERGY FUEL SALES NOT DEDUCTED ELSEWHERE ON THIS RETURN.

Line 6. OTHER. Enter amount of qualified local tax deduction not reported on lines 4 and 5. An explanation must be given. For some repossessions, a deduction on this line may be authorized for a credit of a portion of the local option tax previously paid on repossessed tangible personal property. See additional instructions for tax credit on repossession.

Line 7. NET TAXABLE TOTAL – LOCAL. Deduct the total of the entries on lines 4, 5, and 6 from the amount on Line 3. Enter the result on this line. This becomes the base for the local option tax.

Line 8. LOCAL SALES AND USE TAX. Multiply Line 7 by the local tax rate shown on Line 10 on the front of the return. Enter the amount of local tax due on this line and on Line 10 on the front of the return.

SCHEDULE C – INDUSTRIAL TRANSACTIONS

Line 1. TAXABLE SINGLE ARTICLE SALES FROM \$1,600 to \$3,200. Enter the total sales from \$1,601 through \$3,200 on the sales price of all single articles sold.

Line 2. STATE TAX. Multiply the amount on Line 1, Schedule C, by 2.75% and enter the result.

Line 3. WATER. Dealers – enter the amount of water sales to manufacturers for which you have collected the reduced rate of 1.0% state tax. Manufacturers – enter the amount of purchases of water authorized the reduced rate upon which you have not paid the reduced rate to your supplier. You must enter that portion of this amount that is subject to reduced local tax on Line 8 of Schedule C.

Line 4. STATE TAX. Enter 1.00% of Line 3.

Line 5. ENERGY FUELS. Dealers – enter the amount of energy fuel sales to qualified users that are authorized the reduced rate of state tax (1.50%) upon which you have collected the tax. Manufacturers – enter the amount of purchases of energy fuel which are authorized the reduced rate of state tax (1.50%) upon which you have not paid the tax to your supplier.

Line 6. STATE TAX. Enter 1.50% of Line 5.

Line 7. TOTAL. Enter the total of Lines 2, 4, and 6 on this line and on Line 12 on the front of the return.

Line 8. WATER. Enter the amount of water sales or purchases, subject to the reduced local tax, that is included in the amount reported on Line 3 of Schedule C.

Line 9. LOCAL TAX. Multiply the amount on Line 8 by ½ of 1%. Enter the amount here and on line 13 on the front of the return.

For additional information, contact the Taxpayer Services Division in one of our Department of Revenue offices:

Nashville (615) 253-0600 3 rd Floor Andrew Jackson Building 500 Deaderick Street	Chattanooga (423) 634-6266 Suite 350 State Office Building 540 McCallie Avenue	Knoxville (865) 594-6100 Room 606 State Office Building 531 Henley Street	Jackson (731) 423-5747 Room 405 B Lowell Thomas Building 225 Martin Luther King Blvd.	Memphis (901) 213-1400 3150 Appling Road Bartlett, TN 38133
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Tennessee residents can also call our statewide toll free number at 1-800-342-1003. Out-of-state callers must dial (615) 253-0600.